

**REPORT OF THE AUDIT OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005



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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Henry W. Bertram, Pendleton County Judge/Executive

Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

The enclosed report prepared by Percy and Gray PSC, Certified Public Accountants, presents the Pendleton County Sheriff's Settlement - 2004 Taxes as of April 22, 2005.

We engaged Percy and Gray PSC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Percy and Gray PSC, evaluated the Pendleton County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

Crit Luallen
Auditor of Public Accounts

Enclosure



EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
PENDLETON COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

April 22, 2005

Peercy and Gray, PSC has completed the audit of the Sheriff's Settlement - 2004 Taxes for the Pendleton County Sheriff as of April 22, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$5,007,382 for the districts for 2004 taxes, retaining commissions of \$176,348 to operate the Sheriff's office. The Sheriff distributed taxes of \$4,822,726 to the districts for 2004 Taxes. Taxes of \$5,705 are due to the districts from the Sheriff and refunds of \$1,501 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$961,191 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were uninsured and uncollateralized by \$961,191 on November 5, 2004.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENTS	5
COMMENTS AND RECOMMENDATIONS	11
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	11



PEERCY AND GRAY, PSC

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To the People of Kentucky

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Honorable Lark O'Hara, Pendleton County Sheriff

Members of the Pendleton County Fiscal Court

Independent Auditor's Report

We have audited the Pendleton County Sheriff's Settlement - 2004 Taxes as of April 22, 2005. This tax settlement is the responsibility of the Pendleton County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Pendleton County Sheriff's taxes charged, credited, and paid as of April 22, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 15, 2005, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Henry W. Bertram, Pendleton County Judge/Executive
Honorable Lark O' Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral of \$961,191 To Protect Deposits
- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC

Audit fieldwork completed -
September 15 2005

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

April 22, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 605,502	\$ 825,898	\$ 2,143,215	\$ 570,653
Tangible Personal Property	51,101	83,412	165,424	180,500
Intangible Personal Property				18,005
Increases Through Exonerations	585	656	2,069	551
Franchise Corporation	91,066	106,052	295,394	
Additional Billings	141	171	499	133
Limestone, Sand, and Mineral Reserves	2,936	3,295	10,392	2,767
Bank Franchises	25,614			
Penalties	4,415	5,755	15,599	4,145
Adjusted to Sheriff's Receipt	(6)	(2)	(26)	(33)
Gross Chargeable to Sheriff	<u>\$ 781,354</u>	<u>\$ 1,025,237</u>	<u>\$ 2,632,566</u>	<u>\$ 776,721</u>
<u>Credits</u>				
Exonerations	\$ 2,255	\$ 2,830	\$ 7,982	\$ 3,624
Discounts	9,612	12,792	31,966	11,155
Delinquents:				
Real Estate	12,810	17,782	45,341	12,073
Tangible Personal Property	64	74	206	520
Intangible Personal Property				11
Delinquent Omitted	52	58	183	50
Uncollected Franchise	7,613	7,208	22,235	
Total Credits	<u>\$ 32,406</u>	<u>\$ 40,744</u>	<u>\$ 107,913</u>	<u>\$ 27,433</u>
Taxes Collected	\$ 748,948	\$ 984,493	\$ 2,524,653	\$ 749,288
Less: Commissions *	<u>32,118</u>	<u>36,358</u>	<u>75,740</u>	<u>32,132</u>
Taxes Due	\$ 716,830	\$ 948,135	\$ 2,448,913	\$ 717,156
Taxes Paid	714,084	945,111	2,448,170	715,361
Refunds (Current and Prior Year)	<u>643</u>	<u>623</u>	<u>2,218</u>	<u>620</u>
Due Districts or (Refund Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 2,103</u>	<u>\$ 2,401</u>	<u>\$ (1,475)</u>	<u>\$ 1,175</u>

The accompanying notes are an integral part of this financial statement.

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
SHERIFF'S SETTLEMENT – 2004 TAXES
April 22, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,304,009
3% on	\$	2,524,653
1% on	\$	168,720

** Special Taxing Districts:

Library District	\$	746
Health District		803
Extension District		469
Soil District		71
Mental Health District		325
Kenton Fire District		(26)
N. Pendelton Fire District		<u>13</u>
Due Districts	\$	<u><u>2,401</u></u>

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT

April 22, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The Sheriff entered into a written agreement with the depository institution and met requirements (a), (b), and (c) stated above. However, as of November 5, 2004, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$961,191 of public funds uninsured and unsecured.

PENDLETON COUNTY
 NOTES TO FINANCIAL STATEMENT
 April 22, 2005
 (Continued)

Note 2. Deposits (Continued)

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by pledging depository institution in the county official's name	2,231,064
Uncollateralized and uninsured	<u>961,191</u>
Total	<u>\$ 3,292,255</u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 23, 2004 through April 22, 2005.

Note 4. Interest Income

The Pendleton County Sheriff earned \$5,954 as interest income on 2004 taxes. As of September 15, 2004, the Sheriff owes \$490 in interest to the school district and \$971 in interest to his fee account.

Note 5. Sheriff's 10% Add-On Fee

The Pendleton County Sheriff collected \$22,955 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office. As of September 15, 2005, the Sheriff owes \$42 in 10% add-on fees to his fee account.

Note 6. Advertising Costs And Fees

The Pendleton County Sheriff collected \$349 of advertising costs and \$74 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

PENDLETON COUNTY
NOTES TO FINANCIAL STATEMENT
April 22, 2005
(Continued)

Note 7. Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After three years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 2004 taxes, the Sheriff had \$595 in unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENTS AND RECOMMENDATIONS

PENDLETON COUNTY
LARK O'HARA, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 22, 2005

STATE LAWS AND REGULATIONS:

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$961,191 To Protect Deposits

On November 5, 2004, \$961,191 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times.

Sheriff's Response: Will correct.

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

The Sheriff's office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. The following compensating controls are recommended to offset this internal control weakness:

- Have someone other than the person recording cash receipts prepare the bank deposits.
- Place a restrictive endorsement on incoming checks as soon as they are received.
- Have someone preparing the checks independent of the receiving function.
- Prepare bank reconciliations monthly.
- Surprise cash counts by the official.
- Disbursement checks should be required to have two signatures, one being the Sheriff.
- The Sheriff should periodically compare bank reconciliations to the balance in the checkbook. Any differences should be reconciled. The Sheriff should document this by initialing the bank reconciliation and balance in the checkbook.

Sheriff's Response: Will correct.

PRIOR YEAR:

STATE LAWS AND REGULATIONS

The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral To Protect Deposits

On October 31, 2003, \$145,320 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times. This comment was not corrected and has been repeated.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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The Honorable Henry W. Bertram, Pendleton County Judge/Executive
Honorable Lark O'Hara, Pendleton County Sheriff
Members of the Pendleton County Fiscal Court

Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Pendleton County Sheriff's Settlement - 2004 Taxes as of April 22, 2005, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pendleton County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comments and recommendations.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. We consider the reportable condition, described above, to be a material weakness.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Pendleton County Sheriff's Settlement - 2004 Taxes as of April 22, 2005 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Additional Collateral Of \$961,191 To Protect Deposits

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Percy and Gray, PSC". The script is cursive and fluid.

Percy and Gray, PSC

Audit fieldwork completed -
September 15, 2005

